

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

**NEWSPAPER ASSOCIATION OF AMERICA
WITNESS ALLAN T. INGRAHAM
ANSWERS TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-4)
October 6, 2006**

The Newspaper Association of America hereby provides the responses of witness Dr. Allan T. Ingraham (NAA-T-2) to the interrogatories of the United States Postal Service filed on September 22, 2006. Each interrogatory is stated verbatim and is followed by the answer.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

October 6, 2006

William B. Baker
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USPS/NAA-T2-1. Please refer to footnote 1, page 7 of your testimony.

Is it your view that, for the purposes of proposing and recommending rates under the Postal Reorganization Act, it is improper for the Postal Service and the Commission to consider non-cost factors that lead to the establishment of prices that might, in some circumstances, violate the principle of efficient component-pricing? Please support your view.

Answer:

No. I am aware that the statute directs the Postal Service and Commission to consider a number of non-cost factors in setting rates.

However, as it relates to worksharing discounts, I believe that following the principles of ECP is important. Even if non-cost factors are taken into account, those factors should adequately justify departing from ECP prices. Here, the Postal Service passed through 2200 percent of the cost difference between saturation and high density ECR flats—a cost difference determined by differences in delivery costs. I believe such a large passthrough is grossly inconsistent with proper rate setting. This proposal would grossly overcharge high-density mailers for access to the delivery system, which is exactly what ECP is intended to prevent.

Specifically, for the Postal Service to support this 2200 percent pass through (which deviates from the ECP pass through by 2100 percent) by appealing to non-cost factors, it must explain why those non-cost factors, whatever those may be, outweigh by 21 times the cost factors that affect the rate differential between high-density ECR flats and saturation ECR flats.

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USPS/NAA-T2-2. Please refer to page 14, lines 12-16 of your testimony.

When considering the percentage change for the saturation category, is it appropriate for the Commission to consider the additional charge for using DALs, and the effect of the new surcharge? Please provide the basis for your answer.

Answer:

For this response I take “percentage change” to be the percentage increase in the price of ECR saturation flats from the current price of that mail type.

To the extent that the Postal Service currently considers the percentage increase in rate for any particular mail category in determining price, then yes. In this instance, however, it is appropriate for the Commission to take into account how many DALs are likely to be mailed, as I discuss at pages 13 to 16 of my testimony. This is a consideration the Postal Service has failed to make.

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USPS/NAA-T2-3. Please refer to page 17 of your testimony.

Please explain the ratemaking rationale for offering two different rate designs for ECR mail based solely on the level of expected response to the proposed DAL surcharge.

Answer:

As I stated on pages 8-9 and 13-14 of my testimony, I found two serious flaws in witness Kiefer's rate proposal for ECR mail. One of those flaws was the pass through of 2200 percent of the cost difference between ECR saturation and ECR high density flats. This flaw could be corrected with data provided by witness Kelley in both NAA/USPS-T30-7 and ADVO/USPS-T30-1.

The other flaw in witness Kiefer's rate proposal was the fact that he assumed that there would be no conversion from DALs to on-piece addressing, despite ample reason to believe that at least some DALs would convert. Hence, his rates are based on an unrealistic assumption about mailer behavior.

The amount of DAL conversion is relevant to both of these issues in the setting of high-density and saturation rates. So I believe that the Commission has to choose between two assumptions: (1) no DAL conversion (as Kiefer's revised testimony now assumes; or (2) some DAL conversion. My testimony presents improved rate designs based on both of these alternative assumptions. It is up to the Commission which assumption about DAL conversion to use, and the rates it sets should be based upon whichever assumption it uses.

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USPS/NAA-T2-4. Please refer to Table 3 which is located on page 9 of your direct testimony. The ECR Saturation Flat cost cited in the column titled 'Kelley Response to NAA/USPS-T-30-7, 2006' is 5.226 cents. Please confirm that the unit delivery cost in the cell cited should be 5.213 cents based on Witness Kelley's response.

Answer:

Confirmed. I note, however, that my workpapers (NAA-LR-T2-1: Rate Design Workpapers (No DAL Conversion), NAA-LR-T2-2: Rate Design Workpapers (DAL Conversion to On-Piece) and NAA-LR-T2-3: DAL and Saturation Delivery Cost Model) used the correct delivery cost of 5.213 cents for ECR saturation mail. The rates that I propose are based on my workpapers, not Table 3. Therefore, the use of the older number in Table 3 does not affect either of the rate proposals presented in my testimony.